

Provider of Choice: Feedback on Initial Leanings & 2021 Calendar of Topics

PPC Rates and Contracts

April 28, 2021

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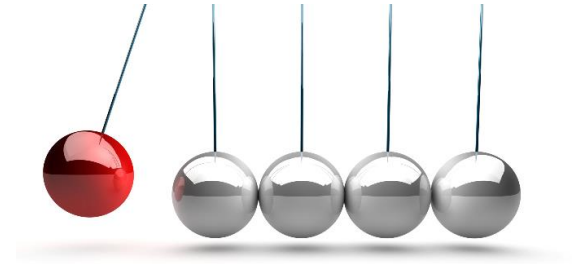


Agenda

- BPA Introduction
- 2021 Engagement Approach
- Proposed Sequencing of Topics
- Feedback on Initial Leanings and BPA's Response
- Next steps

Intro: Responding to what we've heard

- Executive participation and commitment
- Reading between the lines: what is said and not said
- Overall timeline and sense of urgency
- What does success look like



How we are incorporating inputs

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How we are incorporating your inputs

- Utilizing PPC during 2021 as an established convening forum – AND-augmenting with additional engagements upon request.
- Welcoming customer-ideation and incorporating into topic-centered discussions.
- Accelerating substantive 2021 engagement – with openness to overall process acceleration
 - Proposed design/discussion topics calendar
 - Previewing key questions, drawn from customers' collective feedback
 - Sharing materials in advance
- Listening to individual and group inputs – synthesizing & reflecting back – ensures we 'got it right;' confirms we heard you.
- Letting 'interests' rest for a bit and then refining / modernizing

2021 Approach

Goals:

meaningful discussion on relevant issues;
progress toward overarching design concept



2021 Approach

How 2021 sessions relate to the overall policy development process

- 2021 sessions will be non-committal, pre-decisional brainstorming sessions for preference customers. (All materials, notes and feedback generated are subject to FOIA).
- These 2021 sessions are *not* the start of Provider of Choice negotiations. BPA is information gathering.
- As we release the Concept Paper and transition to policy development BPA will hold workshops and initiate a formal public process to negotiate policy, rates and contract terms.
- BPA will augment PPC sessions with additional customer and stakeholder engagements upon request.

Meeting Cadence

- BPA planning, at a minimum, for monthly topic-specific meetings (2-3 hours each)
- BPA also open to a two-meeting per month cadence where the second meeting would allow for additional discussion on the first meeting's topic and/or to follow up on earlier topics that were time-constrained.

2021 Approach

Customer feedback after each session

- After each session in 2021, BPA proposes 2 weeks for customers to provide informal feedback through:
 - Post2028@bpa.gov
 - Account Executives
 - Trade Organizations

Feedback loop to customers

- At the beginning of each session, BPA proposes to reserve time to address feedback received from prior session/topic. If additional time/conversation is needed, we will work with customers and trade organizations to address best way to do that (e.g. utilize a second monthly session or adjust overall meeting schedule).

2021 Approach

Discussion approach

- We intend to loosely follow the process used in the EIM/BP-22/TC-22 pre-rate case workshops (multiple steps likely addressed in a single meeting)
- BPA will attempt to present alternatives and leanings on topics when possible.
- BPA will address customer feedback during 2021 meetings, though we intend to present refined proposals in Concept Paper.

Step 1:
Introduction & Education

Step 2:
Description of the Issue

Step 3:
Analyze the Issue

Step 4:
Discuss Alternatives

Step 5:
Discuss Customer Feedback

Step 6:
Staff Proposal – **Culminating
in Concept Paper**

2021 Approach

BPA's Provider of Choice materials and the website

- BPA will post BPA materials following each session.
- BPA has not planned to post customer comments in 2021 prior to Concept Paper. Given interest in transparency, what do customers prefer? (again recognizing FOIA)
- Session materials prepared with sufficient detail to inform all customers, whether they attend PPC session or not.

Customer proposals

- We are interested and welcome your proposals as they are ready.
- In 2021, BPA is looking to customers for guidance to formulate *concepts* (implementation details will be addressed in subsequent phases beyond 2021).
- BPA prefers any topic-relevant proposals at least a week or two in advance of topic discussion in 2021.

Getting the topics scheduled. Priming future conversations.

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Prompts for feedback:

- Have we identified the most critical topic areas?
 - Are there topics you would deprioritize?
 - Others you would substitute in?
- What problem statement or opportunity statement would you provide for each topic area?

Proposed calendar of topics

May:	CHWM and RHWM approach
June:	Application of non-Federal resources
July:	Capacity enhancements and Resource Adequacy
August:	Carbon
September:	Contract term and cost control mechanisms
October:	Transfer service, transmission, and revisit interests
November:	Energy Efficiency
December:	Residential Exchange Program

Sample discussion questions by topic

- While in listening mode, we've been actively gathering your feedback.
- For each topic in 2021 leading up to the Concept Paper, BPA distilled customer input and ideas.
- To provide a line of vision and to accelerate discussions, BPA offers the following questions based on feedback received. These questions are intended to provide additional clarity around the scope for the upcoming sessions.
- The *specific* agenda for each session would be determined and shared prior to each session. The sample questions shared on the following slides may evolve and are subject to change leading up to the sessions.
- Prompt for feedback: Are there important questions not identified that you want BPA to explore as we engage on these topics?

Sample discussion questions by topic

CHWM and RHWM approach

- How might BPA adjust its 'critical firm' designation for future contracts? What are the augmentation, risk management, and cost implications of potential adjustments?
- How might HWMs be adapted to best suit the future given changes to customer loads and resources?
- How might the HWM approach be adapted to provide customers more stability in their BPA purchase amounts?

Application of non-Federal resources

- How might products be adapted to provide non-Federal resource flexibility?
- What scale or frequency of flexibility presents cost/risk shifts among other customers and how might these be mitigated?
- What changes could address friction and uncertainty around non-Federal resources (size thresholds, notice provisions, support services requirements, etc.)?

Sample discussion questions by topic

Capacity and Resource Adequacy in a Post-2028 Contract world

- How might BPA support customers taking Block or Slice/Block products in meeting their peak loads?
- What new processes or concepts might BPA need to stand up to reflect emerging capacity needs, challenges, value?
 - Might we need a Peak Net Requirement?
 - Might Contract Demand Quantities be retained? Adapted?
- What role do BPA's future products / services play in Resource Adequacy?
- What is the interplay between the formative regional RA program, participant accountabilities, and BPA's products and services?

Carbon

- What are the possibilities for BPA to offer carbon-free products / choices?
- How might carbon treatment vary between Tier 1 and Tier 2 products?
- What are system-mix considerations for BPA power purchases (balancing / augmentation)?
- How might BPA adapt its marketing activities in response to carbon/customer implications?
- What REC treatment could best meet future customer needs?

Sample discussion questions by topic

Contract term and cost control mechanisms

- What contract term or mix of contract terms might BPA offer?
- What are the risks and implications of various approaches and how might those risks be mitigated?
- How might we balance customer's need for cost stability with BPA's need to recover costs from sales revenues?

Transfer service and Transmission issues

- How might BPA approach transfer service for the post-2028?
- What specific interests or principles should inform that approach?
- How might BPA approach cost issues associated with Federal and non-Federal transfer service?
- How might BPA foster compatibility between power and transmission services?

Sample discussion questions by topic

Energy Efficiency

- How might BPA fund sufficient energy efficiency to ensure resource needs are being met, and how might funding be allocated?
- What regional infrastructure and implementation flexibilities might BPA consider to support energy efficiency acquisition?
- How might BPA establish and, potentially, allocate targets for energy efficiency acquisition?
- How might BPA best support demand response, battery storage, and other distributed energy resources as they become increasingly important for customers?

Residential Exchange Program

- What is the Residential Exchange Program (REP)? How are REP benefits currently determined?
- Why was the REP settled in 2012? What were the major issues?
- What are the potential paths forward in light of the REP settlement expiring in 2028?

Feedback on Initial Leanings

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Interests

“We generally agree with BPA that the interests have continued relevance and a place in the Provider of Choice process. However, that does not necessarily mean that the application of these interests in the Provider of Choice process should produce the same outcomes as they did in the Regional Dialogue.”

(customer feedback)

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Customer views on interests

Lowest Tier 1 Rates and Tier 1 Costs

Further define this principle to include language that maintains the **resource mix of the Tier 1 federal system** of today.

Given **unconstrained cost growth** and the shrinking capability of the federal system, can BPA achieve such a goal without clarifying or establishing cost and/or rate targets?

Power supply should be **competitively priced** with high reliability.

Price certainty is a critical requirement while also recognizing that price changes over time are a practical reality.

Generally supports targeting lowest T1 costs and T1 rates; continued **costs control**.

Optimize and monetize the Tier 1 system capability so it is put to **highest value** purposes.

Remains relevant post-2028, although we question how successful the Regional Dialogue contracts have been in achieving this goal. Has been undermined in two significant ways: (1) inclusion of a **new category of costs** that goes beyond what is in the TRM, and (2) potential exclusion of new power revenues.

Customers need **certainty around cost**, including **real transparency** and **accountability**. Open ended commitments for increasing program costs or changes in financial policy will not be acceptable going forward.

Themes

Relevant, but meaning has changed

Cost control

Price certainty

Maximize value

Transparency

Customer views on interests, cont.

Certainty of Obligations for All Parties

It is imperative for BPA to hold itself **accountable** and provide **certainty** surrounding the obligations Preference Customers will be signing up for as part of this next contract. Without **fully understanding all the programmatic pieces BPA views as required under the Act**, customers will be taking on considerable risk as has been the experience under the current RD contract.

Remains **relevant** post-2028, although we question how successful the Regional Dialogue contracts have been in achieving this goal.

Consistency with BPA Stewardship Obligations

BPA needs to fully **review stewardship obligations** as part of the Post-2028 process. Preference Customers have borne the ultimate obligation to pay for programs that have been thrust upon us through means of **political pressure versus statutory obligations**. (For example, many Preference Customers have repeatedly and openly objected to the expansive role BPA has taken on in helping the region meet energy efficiency targets.)

Work with customers to be **creative** and **reduce associated** fish & wildlife **obligations** and the round-tripping of energy efficiency dollars.

Per BPA, “consistency with BPA stewardship obligations” refers to supporting fish and wildlife and cost-effective conservation. Given that both of these are requirements under the Northwest Power Act, it’s recommended that these two interests are combined to simply say “**Consistency with the Northwest Power Act.**”

Themes

Certainty of obligations /certainty of costs

Define/ re-evaluate BPA’s statutory obligations

Interests, cont.

Sampling of customer feedback on other interests

Additional products and significant modifications must be examined to provide utilities with **desirable options** to meet, for example, peak loads and emissions requirements. This must be achieved with an eye toward **equity among customer classes**.

The post-2028 contracts **must not hinder customers' ability to comply with federal or state requirements, nor should the contracts unnecessarily increase the costs or complexity of complying with these requirements**.

BPA, in coordination with stakeholders, must **ensure that the product/rate/contract structures are sufficiently robust** to enable BPA or customer participation in these structures or future (currently undefined) opportunities, as well as **shelter customers from others' decisions** should they prove misapplied.

Carbon-free attributes of power supply **are desirable but not necessarily essential**. Hydro should be viewed as carbon free and renewable.

BPA's thinking on interests

In feedback BPA received on its initial leanings, as well as during 2020 engagement, the following major themes emerged regarding core interests/principles that could possibly supplement or replace certain interests:

- Cost control
- More price certainty
- More flexibilities than currently afforded (applies to a variety of issues)
- More emphasis on statutory obligations when considering stewardship role
- Transparency
- Continued emphasis on equity and customer support
- Preservation of FCRPS and maximizing its value as a low-carbon resource to benefit preference customers

BPA proposes to revisit the foundational interests again in the Fall after the benefit of 2021 conversations and prior to the Concept Paper.

Tenets

“While many of these interests and tenets are generally in line with customer interests, execution is essential. Customers are NOT seeking a straight roll-over of current products and terms with minimal changes.”

(customer feedback)

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Customer feedback on tenets

Standardized Contracts

Supports BPA's desire to develop standardized contracts for ease of administration. Should use standardized contracts to the extent possible.

General support for standardized contracts is consistent with what we heard from customers during 2020 engagement.

Standard Term Length

BPA needs to consider variable terms that support customers in meeting state carbon goals, mitigate load variation risks and maintain flexibility to adapt to evolving markets and regulatory requirements.

Flexibility will be a crucial issue in future contracts, for example, multiple contract terms so that a wide variety of BPA customers can find something that adequately captures the appropriate risk/reward/value balance.

While we generally support the use of a consistent term length across all contracts, we also recommend that the contract be sufficiently flexible to allow customers to change course so they can better meet the circumstances they may find themselves in post-2028 due to things like changes in load, market evolution, non-federal resource acquisition, and new regulatory requirements to name a few.

BPA and customers consider an expiration date of no later than December 31, 2044 to acknowledge that the circumstances and contract needs for Washington utilities will significantly change effective January 1, 2045 when they must be completely carbon-free under CETA.

BPA is open to exploring variable terms and/or other flexibilities in how the contract is structured. We will work with customers to identify and weigh trade-offs.

Customer feedback on tenets, cont.

Long-Term Contract & Rate Structure

Does not support a single 20-year contract term. Signing a long-term contract without explicit cost controls and/or off-ramps will place too much risk on Preference Customers.

Rate changes every 2 years create price volatility and uncertainty, longer term rate certainty is a desired change in future power supply contracts.

A long-term contract structure is a potentially desirable goal but depends on the value proposition.

BPA and preference customers should consider share the pain mechanisms and off-ramps to provide some price certainty, including: (i) longer-term contracts with contractual off-ramps that would allow preference customers to reduce their load on BPA; (ii) shorter-term contracts with renewal rights; and/or (iii) provisions that require BPA to match rate period to rate period rate increases with cost reductions.

Tiered Rates Construct and TRM

Generally supportive of the concept of using a tiered rate approach and a TRM post-2028, but we expect modifications will be necessary. [This is a summary representative of numerous similar comments.]

Consider products and rate designs that connect the amount of power used to the amount of the payment made as a means to hold BPA better accountable and as a possible way to better incent energy efficiency and load management activities by customers.

BPA will advocate for as long a term as possible. However, we understand concerns about cost control and risk. We are open to exploring flexibilities in contract structure, term(s), cost control mechanisms, etc.

Customer feedback on tenets, cont.

Tiered Rates Construct and TRM continued

Maintain the current Tier 1 system resource mix. If additional resource needs materialize during these Post-2028 contract negotiations, recommend addressing these needs outside of the Tier 1 system through different tiers/products with those who require them. These products should be priced appropriately, separate from the Tier 1 system.

Explore ways to optimize and monetize the Tier 1 system capability so it is put to the highest value purposes.

“System allocation” should consider alternative water years or methodologies for setting the size of the system.

Explore different methodologies to establish and allocate the Tier 1 system, including the role of both energy and capacity.

There are many important discussions to be had on how to define the “base” system for post-2028, including definition of critical output and potential for augmentation.

Revisit the methodology to determine the “firm capability” of the Federal system.

Prior to deciding on the tenets, BPA should conduct a baseline analysis that compares total preference load eligible (and/or desired) to be placed onto BPA with the capabilities of the FCRPS. This should not be constrained by prior determinations of firm system capability.

Support for tiered rates, with potentially significant modifications, is consistent with what BPA heard during 2020 engagement. Provides background for more substantive conversations in 2021 about allocation and CHWMs.

Customer feedback on tenets, cont.

Product offerings of Load Following, Block, and Slice/Block

We support BPA's proposal to use the current Load Following, Block and Slice/Block products as the starting point for discussion, but also recommends that BPA and customers conduct a comprehensive review of those products to ensure that they meet the post-2028 challenges and needs of BPA's preference customers.

Important issue: options/products for Slice and Block BPA Preference customers to help meet coming regional resource adequacy requirements.

Current RSO methodology precludes the efficient integration of non-emitting and/or renewable resources to serve our load obligations and therefore conflicts with the principle of advancing national and regional climate change objectives.

Implementing a monthly test has proven to be a nonsensical construct and has forced odd resource scheduling behavior to avoid penalties. While this odd scheduling behavior may have been tolerable under the RD Contract, the new carbon free requirements we must meet in the future make it intolerable.

Streamline the integration and use of non-federal resources, including renewable resources, battery/storage, demand response and other distributed energy resources.

There has been wide support from customers and BPA staff to use the current three products as a starting point. We look forward to discussing adjustments and improvements, including those customers have already introduced (e.g. Slice product enhancements).

Areas of customer coalescence on tenets

Heard general support for:

1. Standardized contracts, to the extent possible.
2. A long-term contract term and rate structure (potentially); would depend on value proposition and possible cost control mechanisms.
3. Provider of Choice product offerings of Load Following, Block, and Slice/Block, with potentially significant modifications.
4. Continue to utilize a tiered rate structure and TRM, with potentially significant modifications.

2021 Engagement Process Feedback and Expectations

“There needs to be a transparent mechanism for ensuring that customer feedback to BPA is received, interpreted appropriately, and is able to reflected in future documents.”

(customer feedback)

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Customers’ process feedback and BPA response

Initial Leanings Feedback—Overall engagement process	BPA response
<p>Supports PPC venue but would like to meet with BPA directly to discuss specifics of Slice product design.</p>	<p>We plan to continue leveraging PPC as a (virtual) gathering place, supplementing with additional meetings. It is important for us to engage as many customers as possible to understand the breadth of customer needs and interests. Among the advantages of utilizing PPC’s existing forum is its ability to convene a strong cross-section of customers. That said, we understand the value of individual and smaller-group engagements.</p> <p>Further, we intend to provide materials as far in advance as possible.</p>
<p>We believe using the PPC Rates and Contracts as a primary forum is a productive avenue to facilitate thoughtful discussions within public power and with BPA.</p>	
<p>Supports BPA carrying forward the BPA and public power working sessions in this Provider of Choice process and recommends a monthly cadence, using Public Power Council as a facilitator.</p>	
<p>Provide papers/materials prior to the PPC meetings—is useful and helps facilitate productive discussions at BPA and within customer organizations.</p>	

Customers' process feedback and BPA response

Initial Leanings Feedback—Overall engagement process

There needs to be a transparent mechanism for ensuring that customer feedback to BPA is received, interpreted appropriately, and is able to be reflected in future documents. If BPA waits to respond to customer input until proposed wrap-up session in late summer, there would be little time to ensure feedback was appropriately heard and interpreted.

Slides implied that more of the months-long process would be devoted to the core tenets. We have concerns that this would have the effect of producing a potentially narrow scoping document in the Fall. Expand the scope of the Engagement process, and potentially adjusting the pace and length of meetings to accommodate such an expansion.

- Embrace potential change
- Balance interests - Provide transparency and promote discussion between BPA and customers as to the tradeoffs between the interests implicated by the proposals advanced during the process;
- Make progress - Work to produce outcomes that genuinely result in BPA becoming the Provider of Choice.

BPA response

BPA proposes to reserve the start of each 2021 session to address feedback received from prior session/topic. If additional time/conversations is warranted, we will work with customers to address the best way to do that, possibly including a two-meeting per month cadence. **Are there other suggestions at this time?**

BPA believes the scope of 2021 conversations is broader than core tenets, as indicated by topic list and sample discussion questions. BPA intends to approach these pre-decisional, brainstorming conversations with an openness to change and in a way that transparently highlights potential risks and tradeoffs.

Next Steps

- BPA seeking feedback regarding meeting scheduling (topic sequencing and potential two-meeting per month cadence) by May 5th. All other feedback by May 12th. Please provide feedback to post2028@bpa.gov, via discussions with Power AE, or through your trade organizations as applicable.
- BPA will work with PPC to develop the detailed meeting schedule and distribute as a meeting follow-up.

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Thank you for your time today and your ongoing engagement in post-2028 conversations.

